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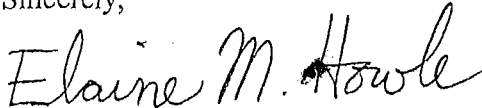
S. Kimberly Belshé, Agency Secretary
Health and Human Services Agency
1600 Ninth Street, Suite 460
Sacramento, California 95814-6404

Dear Ms. Belshé:

As part of our comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 2007, we assessed the internal controls and administration of federal programs which are under your jurisdiction. We are including the Department of Mental Health's (department) comments within the issues we are reporting. This format allows the department's perspective to be considered and included in our Internal Control and Compliance Report submitted to the Department of Finance.

During our audit for fiscal year 2006-07, we noted certain deviations from federal regulations, which are designed to protect the public's resources. The enclosed issues, with the related recommendations are intended to improve the department's administration of its federal programs. Since the purpose of this letter is to inform you of the issues we have identified at your department and the department's perspectives on these issues, it is not necessary for you or the department's director to respond in writing to our letter. However, if you would like to discuss the issues or the department's responses, please contact Philip J. Jelich, Deputy State Auditor, or Joanne Quarles, Audit Principal, at 445-0255, by April 29, 2008.

Sincerely,



ELAINE M. HOWLE
State Auditor

Enclosures

cc: Stephen W. Mayberg, PhD., Director
Department of Mental Health

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-1-2

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grant

Federal Award Numbers:
and Years 06B1CACMHS-03;2006
05B1CACMHS-01;2005
04B1CACMHS-01;2004

Category of Finding: Activities Allowed/Allowable Costs

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—Part B—Block Grants Regarding Mental Health and Substance Abuse—subpart i—block grants for community mental health services—Section 300x Formula grants to States

(b) Purpose of grants

A funding agreement for a grant under subsection (a) of this section is that, subject to section 300x-5 of this title, the State involved will expend the grant only for the purpose of—

- (1) carrying out the plan submitted under section 300x-1(a) of this title by the State for the fiscal year involved;
- (2) evaluating programs and services carried out under the plan; and
- (3) planning, administration, and educational activities related to providing services under the plan.

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—Part B—Block Grants Regarding Mental Health and Substance Abuse—subpart i—block grants for community mental health services—Section 300x-5 Restrictions on use of payments

(a) In general

A funding agreement for a grant under section 300x of this title is that the State involved will not expend the grant—

- (1) to provide inpatient services;
- (2) to make cash payments to intended recipients of health services;

- (3) to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;
- (4) to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds; or
- (5) to provide financial assistance to any entity other than a public or nonprofit private entity.

CONDITION

Mental Health does not ensure that subgrantees' expenditures are only for allowable activities and costs. Mental Health requires counties to submit a federal grant detailed provider budget and program narrative for each of their programs as part of their application for Substance Abuse and Mental Health Services Administration Community Mental Health Services (SAMHSA CMHS) Block Grant funds. Mental Health distributes SAMHSA CMHS grant funds to counties for community mental health services based on an allocation formula. For state fiscal year 2006–07, Mental Health's balance sheet indicates that it awarded almost \$52 million to counties.

Mental Health relies on the counties' budget and program description components of their applications to determine if funds are used for allowable costs and activities. Specifically, the SAMHSA CMHS grant renewal application instructions direct counties to include in their program narrative a program description that specifies what is actually being paid for by the block grant funds. The counties must explain their budget line items. However, we examined 19 program narratives submitted by our sample of six counties and found that the program descriptions provide a general outline of program activities but did not explain each budget item. Program staff stated that they do not penalize counties for failing to explain budget items in the program description. We also found that one program narrative was missing and one narrative did not clearly specify its target population as children with Serious Emotional Disturbance or adults with Serious Mental Illness.

Because Mental Health does not collect sufficient information from counties during the application process, we were unable to determine if 12 of the 19 budget sheets we examined from our sample of six counties contained budget line items that were for allowable costs and activities. For example, seven budget sheets referred to contracts with other entities under the "other expense" budget line item, but the counties did not describe the contract or include a copy of it.

Mental Health also does not require the counties to submit invoices, receipts or payroll information to verify the amounts they report as expenditures. Additionally, Mental Health does not perform regular site visits to the counties to verify the allowability of their programs' costs and activities. According to Mental Health, it used to perform site visits that included procedures to verify the amounts reported in counties' expenditure reports. However, Mental Health ceased performing site visits for this purpose years ago because of changes in organizational structure and a shift in the focus of its site visits to activities related to the Mental Health Services Act. Until Mental Health establishes processes and procedures, it has no way of knowing if counties are charging unallowable costs and activities to the program.

QUESTIONED COSTS

Unknown

RECOMMENDATION

Mental Health should establish a process to ensure that only allowable costs and activities are paid for with SAMHSA CMHS grant funds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a state audit conducted by the Bureau of State Audits in 2003. None the less, Mental Health recognizes the need to verify appropriate expenditures and understands the approach identified in this report. As a result Mental Health will increase the level of detail required from counties in reporting expenditures and will begin internal planning to determine the best way to organize county site reviews without creating a burden on counties who experience multiple audits and reviews every year. Although Mental Health appreciates the suggestion that counties be required to submit invoices for payment as a strategy for ensuring expenditures are for allowable activities and costs, it believes that this is best handled by requiring more detail in county expenditure reports.

Mental Health's administration and its accounting unit acknowledge the recommendation and are conducting a reengineering evaluation of the current process that will provide the opportunity to improve the processes and procedures as it relates to invoice submittals.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-3-2
Federal Catalog Number: 93.958
Federal Program Title: Community Mental Health Services Block Grant
Federal Award Number and Year: 06B1CACMHS;2006
Category of Finding: Cash Management
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 45—PUBLIC WELFARE PART 96—BLOCK GRANTS, Subpart C—Financial Management—Section 96.30 Fiscal and administrative requirements

(a) *Fiscal control and accounting procedures.* Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.

Welfare and Institutions Code, Section 5713.

Advances for funding mental health services may be made by the Director of Mental Health from funds appropriated to the department for local mental programs and services specified in the annual Budget Act. Any advances made pursuant to this section shall be made in the form and manner the Director of Mental Health shall determine. When certified by the Director of Mental Health, advances shall be presented to the Controller for payment. Each advance shall be payable from the appropriation made for the fiscal year in which the expenses upon which the advance is based are incurred. The advance may be paid monthly in 12 equal increments but the total amount advanced in one fiscal year shall not exceed 95 percent of the county's total allocation for that year.

State of California 2006–07 Final Budget Summary, Chapter 47/48, page 364, Provision 2.

The Department of Mental Health may authorize advance payments of federal grant funds on a monthly basis to the counties for grantees. These advance payments may not exceed one-twelfth of Section 2.00 of the individual grant award for the 2006–07 fiscal year.

CONDITION

Mental Health's procedures for monitoring each county's Substance Abuse and Mental Health Services Administration Community Mental Health Services (SAMHSA CMHS) Block Grant do not adequately ensure that the advances made to the counties

are appropriate. Mental Health has established procedures for monitoring each county's SAMHSA CMHS cash balance, and for adjusting their advances when a county's cash balance is too high. Specifically, Mental Health requires its staff, prior to making advances to the counties, to analyze the counties' past and current year expenditures. Staff are to compare the counties' advances and reported expenditures to verify that the counties do not have cash balances that are more than 15 percent of their monthly expenditures. Counties are not to have more cash on hand than they can spend in three days and the 15 percent of expenditures is equal to three days of expenditures.

However, the formula in the Excel spreadsheet that performs the calculation is flawed. The formula calculates cash on hand as a percentage of total fiscal year expenditures to date. Mental Health's procedures stipulate that if the percentage is greater than 15 percent staff should adjust or not make the next month's advance payment. The flaw is that 15 percent of the aggregated expenditures is an ever-increasing threshold that, when compared to the reported cash balances, artificially reduces the percentage. For example, a county reports cash on hand of \$5,000 on each of its quarterly reports. If its total expenditures in the first quarter were \$10,000, the percentage would be 50 percent. However, if its total expenditures in the fourth quarter were \$40,000, the percentage would be 13 percent. The formula never achieves the stated intention of identifying a cash balance that is above 3 days of expenditures.

Additionally, the monthly 15 percent calculation is based on old information that often does not reflect current balances. Counties submit their grant cash transaction report that also includes expenditures on a quarterly basis and county reports are frequently late, while advances are made on a monthly basis. Hence, depending upon the month and whether or not a county has recently submitted a quarterly report, the expenditures could be understated and the cash balance could appear erroneously high.

Furthermore, during the review period Mental Health did not follow the procedures that stipulate that a county's advance must be adjusted or not made when a county's cash balance exceeds 15 percent of its monthly expenditures. Of the 44 disbursements we reviewed, Mental Health made 27 disbursements to counties with cash balances in excess of 15 percent of expenditures according to its formula, and did not adjust any of those advances.

Mental Health explained that it is aware of the calculation error that occurs when the formula incorporates out-dated and underrepresented expenditure amounts. Mental Health also stated that rather than adjusting advances strictly according to its written procedures, staff evaluate whether or not expenditure data is accurate and then contact counties via phone or email to obtain current expenditure information. When complete expenditure information is factored into the calculation the relative percentage of cash on hand goes down, which obviates the need to adjust the current month's advance.

Finally, Mental Health's procedures do not require supervisory review and approval of monthly advance amounts. Mental Health explained that their accounting department has a process to review advance amounts to ensure that counties are not overpaid, but that they could explore implementing a second review process prior to sending the advance requests to accounting.

These deficiencies hamper Mental Health's determination of acceptable cash balances for the counties and its ability to make appropriate adjustments to their cash advances if needed. Further, until it addresses this issue, it cannot demonstrate that the amount of federal funds it is requesting represents its actual immediate cash requirement for carrying out the program.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should establish procedures to accurately monitor county SAMHSA CMHS cash balances and to adjust its advances to them in accordance with its procedures. Mental Health should also document any exceptions and its supervisory review and approval.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a state audit conducted by the Bureau of State Audits in 2003. As of October 2007, Mental Health hired a cash manager and has instituted a system to monitor, report, and control cash balances. Mental Health will incorporate CMHS Block Grant funds into the new system.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-7-4

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grants

Federal Award Numbers and Years: 06B1CACMHS-03;2006
05B1CACMHS-01;2005
04B1CACMHS-01;2004

Category of Finding: Earmarking

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—Part B—Block Grants Regarding Mental Health and Substance Abuse—subpart i—block grants for community mental health services—SECTION 300X-5 Restrictions on use of payments

(b) Limitation on administrative expenses—

A funding agreement for a grant under Section 300x of this title is that the State involved will not expend more than 5 percent of the grant for administrative expenses with respect to the grant.

CONDITION

Mental Health does not have an official written policy or procedures in place to ensure that administrative costs are charged to the Substance Abuse and Mental Health Services Administration Community Mental Health Services (SAMHSA CMHS) Block Grant appropriately.

Mental Health charged roughly \$2.4 million from the 2006 SAMHSA CMHS grant for administrative expenses, which was below the 5 percent cap for administrative expenses (4.4 percent of the total award of approximately \$55 million). Its practice has been to allocate as much money as possible to counties for community mental health services and the remainder is used to cover administrative costs. Mental Health pays SAMHSA CMHS grant related administrative expenses out of the State's general fund and then requests federal reimbursements from the SAMHSA CMHS grant on a monthly basis.

According to Mental Health, administrative charges to the SAMHSA CMHS grant are made largely at staff discretion. Mental Health charges a portion or all salaries for certain key SAMHSA staff to the grant based on approved timesheets, but other expenditures such as travel are allocated to the SAMHSA CMHS grant by staff's choice. Without an official policy that outlines the allowable costs that may be claimed and procedures such a supervisory

reviews, Mental Health cannot reasonably assure that earmarking requirements are met using only allowable costs.

QUESTIONED COSTS

Unknown

RECOMMENDATIONS

Mental Health should establish a written policy as well as processes and procedures to ensure that only allowable costs are used to meet the earmarking requirement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a state audit conducted by the Bureau of State Audits in 2003. It should be noted that the methodology for calculating Mental Health's administrative charges to this grant have been consistent for 20 years and that Mental Health has always charged less than the 5 percent that is allowed. Mental Health administration is conducting a review of the current process and will develop written policy, processes and procedures ensuring that only allowable costs are used.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-7-5

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grant

Federal Award Numbers
and Years: 06B1CACMHS-03;2006
05B1CACMHS-01;2005
04B1CACMHS-01;2004

Category of Finding: Level of Effort—Maintenance of Effort

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—Part B —Block Grants Regarding Mental Health and Substance Abuse —subpart i—block grants for community mental health services—Section 300x-2 Certain Agreements

(a) Allocation for systems of integrated services for children

(1) In general

With respect to children with a serious emotional disturbance, a funding agreement for a grant under sections 300x of this title is that—

- (A) in the case of a grant for fiscal year 1993, the State involved will expend not less than 10 percent of the grant to increase (relative to fiscal year 1992) funding for the system of integrated services described in Section 300x-1(b)(9)(11) of this title;
- (B) in the case of a grant for fiscal year 1994, the State will expend not less than 10 percent of the grant to increase (relative to fiscal year 1993) funding for such a system; and
- (C) in the case of a grant for any subsequent fiscal year, the State will expend for such a system not less than an amount equal to the amount expended by the State for fiscal year 1994.

(2) Waiver

- (A) Upon the request of a State, the Secretary may provide to the State a waiver of all or part of the requirement established in paragraph (1) if the Secretary determines that the State is providing an adequate level of comprehensive community mental health services for children with a serious emotional disturbance, (12) as indicated by a comparison of the number of such children for which such services are sought with the availability in the State of the services.

(B) The Secretary shall approve or deny a request for a waiver under subparagraph (A) not later than 120 days after the date on which the request is made.

(C) Any waiver provided by the Secretary under subparagraph (A) shall be applicable only to the fiscal year involved.

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—Part B—Block Grants Regarding Mental Health and Substance Abuse—subpart i—block grants for community mental health services—Section 300x-4 Additional Provisions

(b) Maintenance of Effort regarding State expenditures for Mental Health

(1) In general

A funding agreement for a grant under Section 300x of this title is that the State involved will maintain State expenditures for community mental health services at a level that is not less than the average level of such expenditures maintained by the State for the two-year period preceding the fiscal year for which the State is applying for the grant.

(2) Exclusion of certain funds

The Secretary may exclude from the aggregate State expenditures under subsection (a) of this section, funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose.

(3) Waiver

The Secretary may, upon the request of a State, waive the requirement established in paragraph (1) if the Secretary determines that extraordinary economic conditions in the State justify the waiver.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Vol 66, No. 130 (July 6, 2001) contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from the calculation of the maintenance of effort "funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose."

CONDITION

Mental Health lacks processes and procedures to ensure that it complies with the maintenance of effort (MOE) requirement for this program. For the MOE requirement related to the allocation for systems of integrated services for children with SED, Mental Health reported in its federal fiscal year 2007 application that it had met the requirement. Specifically, Mental Health reported state fiscal year 1994–95 expenditures of

approximately \$160 million and an estimate of the state fiscal year 2006–07 expenditures of \$280 million.

Mental Health identified seven components to use in calculating the total of the State's General Fund expenditures needed to meet the MOE requirement for children's mental health services. Of these, two components—the Early Mental Health Initiative (EMHI) program and the California AIDS mental health project—do not target children with SED. Additionally, Mental Health did not provide documentation to support the percentages it applied against the total of Managed Care and realignment dollars to arrive at the amount it reported as expenditures for children with SED. The amount for these two programs represented approximately \$270 million, or 96 percent, of Mental Health's estimated state fiscal year 2006–07 expenditures used to meet the MOE requirement.

Finally, Mental Health was unable to provide documentation that shows the components and expenditures that were used to generate the fiscal year 1994–95 threshold of approximately \$160 million. Therefore, we cannot determine whether Mental Health uses the same methodology for calculating the expenditures as it did in fiscal year 1994–95 and whether it is in compliance with this MOE requirement.

For the MOE requirement related to the State expenditures for community mental health services, Mental Health reported in its application for federal fiscal year 2007 that it had met the requirement. Specifically, Mental Health reported that its estimated state fiscal year 2006–07 expenditures of approximately \$1.9 billion exceeded the average of the State's actual fiscal year 2004–05 expenditures and estimated fiscal year 2005–06 expenditures that was approximately \$1.5 billion. Although required to do so in accordance with guidance published in a July 6, 2001, federal register, Mental Health also did not report all State expenditures for community mental health services for adults with SMI and children with SED in this MOE calculation. Specifically, it did not include any expenditures made with funds from the Mental Health Services Act and it cannot positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED.

Mental Health has selected six components for use in its calculation of total expenditures for community mental health services. These same six components are used in the MOE calculation for state fiscal years 2004–05 through 2006–07. However, of these, one component—the EMHI program—does not specifically target adults with SMI or children with SED. Thus, we also cannot determine whether Mental Health is in compliance with this MOE requirement.

Until Mental Health establishes processes and procedures it cannot ensure that it complies with the MOE requirement for this program. For example, during our audit we found that Mental Health listed its actual expenditures for mental health services as \$1.4 billion for fiscal year 2004–05 in both its 2006 and 2007 grant applications. However, one of the expenditures used to generate this total was \$5 million lower in Mental Health's financial report for that year. Recalculating fiscal year 2004–05 total expenditures with this lower figure places Mental Health's total mental health expenditures below the MOE threshold for that year.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should recalculate total expenditures for integrated mental health services for children with SED using only allowable expenditures. Further, it should reevaluate the percentages used to support the Managed Care and realignment dollars used in its calculation and retain the supporting documentation. Finally, Mental Health should use the dollar amounts reported in the audited financial statements for the fiscal year 1994–95 threshold.

Mental Health should revise its methodology for calculating the community mental health services MOE requirement to accurately capture and report all State expenditures for adults with SMI and children with SED only.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a state audit conducted by the Bureau of State Audits in 2003. Mental Health has begun discussions with SAMHSA staff about federal MOE requirements including whether states should include funds spent by other state agencies for community mental health programs in the MOE calculation. Information provided by SAMHSA staff indicates that federal guidelines related to states' MOE requirements for this program are currently in development. Mental Health will continue to work with SAMHSA to ensure that the methodology used to document MOE is consistent with federal guidelines.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-8-3

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grant

Federal Award Numbers and Years: 06B1CACMHS-03;2006
05B1CACMHS-01;2005
04B1CACMHS-01;2004

Category of Finding: Period of Availability

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS—PART B—Block Grants Regarding Mental Health and Substance Abuse—subpart i—block grants for community mental health services—Section 300x-62 Availability to States of grant payments

Any amounts paid to a State for a fiscal year under Section 300x or 300x-21 of this title shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid.

CONDITION

We were unable to determine whether Mental Health is in compliance with the period of availability requirement because Mental Health does not have an adequate process to establish obligations of Federal grant awards to counties for a predetermined time period.

For the federal fiscal year 2006 Substance Abuse and Mental Health Services Administration Community Mental Health Services (SAMHSA CMHS) Block Grant, the period of availability began on October 1, 2005, and ended September 30, 2007. Mental Health allocated these funds for the state fiscal year 2006–07, which extended from July 1, 2006, through June 30, 2007. The total amount obligated to counties for state fiscal year 2006–07 is unclear. In a letter to county mental health directors, dated June 8, 2006, the total proposed allocation to counties was approximately \$50.9 million. However, in Mental Health's balance sheet for state fiscal year 2006–07, the total county allocation is listed as almost \$52 million. Furthermore, the amount shown as encumbered for county payments under the 2006 SAMHSA CMHS grant for state fiscal year 2006–07 was \$51.8 million.

Mental Health also does not ensure that the Federal award is expended within the period of availability. Our review of Mental Health's accounting records indicates that its federal drawdowns from the 2006 SAMHSA CMHS grant for county payments were \$52.3 million. However, its actual payments to the counties for this same grant period were \$51.7 million, of which \$2.5 million was paid from the 2005 SAMHSA CMHS grant. Therefore, only \$49.2 million of the 2006 SAMHSA CMHS grant was used to make payments to counties for state fiscal year 2006-07. Mental Health used \$3.1 million of the \$52.3 million federal drawdown for the 2006 SAMHSA CMHS grant to pay for expenditures related to other state fiscal years. Specifically, the majority of this amount, approximately \$3 million, was used to make county payments allocated for state fiscal year 2007-08, which should be covered under the 2007 SAMHSA CMHS grant.

Mental Health stated that it uses federal drawdowns from the active grant to make county payments until the expiration of the award period. For example, Mental Health acknowledged that it used funds available from the 2006 SAMHSA CMHS grant to make payments for state fiscal year 2007-08. Mental Health stated that it made the first series of payments to counties on November 30, 2007, due to delays in processing county applications and delays in the State Budget process. The first payments were made using funds from both the 2006 and 2007 SAMHSA CMHS grants and went to 23 of the 58 counties receiving SAMHSA CMHS grant funds.

QUESTIONED COSTS

\$3,014,764.66

RECOMMENDATION

Mental Health should improve its processes and procedures to monitor county expenditures and ensure that SAMHSA CMHS grant funds are used within the two-year period of availability.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a state audit conducted by the Bureau of State Audits in 2003. Specifically information contained in the federal report associated with the May 2005 federal site review of this program indicates that "Federal MHBG funds are obligated and expended in accordance with State accounting requirements and within the two-year Federal fiscal requirement. These obligations were expended from two Federal fiscal year (FFY) appropriations, FFY03 and FFY04." None the less, Mental Health will review and adjust as appropriate procedures relative to timelines for expenditure of funds.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

In its report related to its May 17, 2005, through May 19, 2005, site visit the Center for Mental Health Services (center) disclosed the following limitations:

- Site visits are usually done within a three-day duration.
- Observations in the report are based only on data provided by the agency.
- Fiscal observations contained in the report do not constitute audit findings.
- Interviews are not conducted according to generally accepted auditing standards by the American Institute of Certified Public Accountants or Government Auditing Standards issued by the Comptroller of the United States.

Thus, it is inappropriate for Mental Health to compare the scope of the center's site visit with an audit conducted in accordance with the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-9-1

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grants

Federal Award Number and Year: 06B1CACMHS-03;2006

Category of Finding: Procurement and Suspension and Debarment

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 2: GRANTS AND AGREEMENTS – PART 180 – OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT) – Subpart C – Responsibilities of Participants Regarding Transactions Doing Business With Other Persons – Section 180.330 What requirements must I pass down to persons at lower tiers with whom I intend to do business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to –

(a) Comply with this subpart as a condition of participating in the transaction. You may do so by using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.

(b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

TITLE 2: GRANTS AND AGREEMENTS – PART 376 – NONPROCUREMENT DEBARMENT AND SUSPENSION – Subpart C – Responsibilities of Participants Regarding Transactions – Section 376.332 What methods must I use to pass requirements down to participants at lower tiers with whom I intend to do business?

To communicate the requirements to lower-tier participants, you must include a term or condition in the lower-tier transaction requiring the lower-tier participant's compliance with 2 CFR part 180, as supplemented by this subpart.

CONDITION

Mental Health requires counties to sign a suspension and debarment certification, and include it with their application. Our review of certifications for the six counties we reviewed

found that Mental Health does not require counties to ensure that lower-tier entities with which they enter into covered transactions are not suspended or debarred. Mental Health also does not require counties to pass the requirements down to each person with whom they enter into a covered transaction. As a result, counties could inadvertently pass Federal Substance Abuse and Mental Health Services Administration Community Mental Health Services Block Grant funds to persons who are excluded from conducting business with the federal government.

QUESTIONED COSTS

Not Applicable.

RECOMMENDATION

Mental Health should include the requirements to enforce suspension and debarment regulations with the next lower tier in the instructions to the suspension and debarment certification that it requires counties to submit with their application.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Although this issue has not been raised in either recent federal reviews or state audits, Mental Health acknowledges this issue and will take steps to correct procedures. Mental Health will add language to the current certification required from counties to ensure that county sub-contractors have not been suspended or debarred. Additionally, Mental Health will add language to the county performance contracts relative to suspension and debarment for county staff and their sub-contractors.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-12-6

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grants

Federal Award Number
and Year: 06B1CACMHS-01;2006

Category of Finding: Reporting

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 45 – PUBLIC WELFARE – PART 96 – BLOCK GRANTS – Subpart C – Financial Management – Section 96.30 Fiscal and administrative requirements.

(b) Financial summary of obligation and expenditure of block grant funds —(1) Block grants containing time limits on both the obligation and the expenditure of funds. After the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department:

(i) Total funds obligated and total funds expended by the grantee during the applicable statutory periods; and

(ii) The date of the last obligation and the date of the last expenditure.

(4) Submission of information. Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB Standard Form 269A, Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

CONDITION

Mental Health does not have processes and procedures in place to ensure that the annual Standard Form 269A (SF269A), Financial Status Report, is accurate and submitted on a timely basis. Specifically, the same accounting specialist who prepared the SF269A report for the federal fiscal year 2005 Substance Abuse and Mental Health Services Administration Community Mental Health Services Block Grant was also responsible for keeping track of when the report was due and completing, signing, and submitting the report. Further, although the report was due December 29, 2006, Mental Health did not submit it until March 15, 2007. Until Mental Health establishes processes and procedures, it will be unable to ensure that the SF269A report is accurate and submitted on a timely basis.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should institute processes and procedures to ensure that the SF269A report is prepared accurately and submitted by the due date.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health acknowledges that the annual Financial Status Report has not been submitted within 90 days of the close of the applicable grant period. Mental Health is conducting a review of the current reporting process and will develop written processes and procedures ensuring that reporting is timely.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-13-3

Federal Catalog Number: 93.958

Federal Program Title: Community Mental Health Services Block Grants

Federal Award Number and Year: 06B1CACMHS-03;2006

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

OMB CIRCULAR NO. A-133 – AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS – Subpart D – Federal Agencies and Pass-Through Entities – Section .400 Responsibilities

(d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(4) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

OMB CIRCULAR NO. A-133 – AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS – Subpart B – Audits – Section .225 Sanctions

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending Federal awards until the audit is conducted; or
- (d) Terminating the Federal award.

CONDITION

Our review of the county application correspondence for six counties found that Mental Health used the incorrect Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties. Specifically, Mental Health referred to the grant as the "Federal Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant."

Additionally, Mental Health does not have procedures in place to follow up when counties have not submitted their A-133 audits. The State Controller's Office notifies state agencies of those local governments who are required to submit an A-133 audit but have not done so. The status of the counties' submission of their A-133 audits can also be found on the Federal Audit Clearinghouse database. Until Mental Health establishes procedures, it will be unable to identify and take the appropriate action against the counties that fail to comply with the A-133 audit requirement.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should institute procedures to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health should establish procedures for following up with counties that have not submitted their A-133 audits, and should sanction them as necessary.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health acknowledges the recommendation with regards to the identification of the CFDA title and will be conducting a review of the processes and procedures to ensure that the appropriate CFDA title identification is addressed in all future correspondence to counties.

Mental Health will evaluate the feasibility of the recommendation.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

Mental Health did not provide a plan to address the second recommendation regarding A-133 audits.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2007-14-1
Federal Catalog Number: 93.958
Federal Program Title: Community Mental Health Services Block Grants
Federal Award Number and Year: 06B1CACMHS-03;2006
Category of Finding: Special Tests
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER 6A – PUBLIC HEALTH SERVICE – SUBCHAPTER XVII – BLOCK GRANTS – Part B – Block Grants regarding Mental Health and Substance Abuse – subpart iii – general provisions – Section 300x-53 Additional requirements.

(a) In general

A funding agreement for a grant under section 300x or 300x-21 of this title is that the State involved will –

(1) (A) for the fiscal year for which the grant involved is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved; and

(B) ensure that, in the conduct of such peer review, not fewer than 5 percent of the entities providing services in the State under such program are reviewed (which 5 percent is representative of the total population of such entities).

CONDITION

Mental Health did not facilitate peer reviews. In the past Mental Health had facilitated them in conjunction with its Substance Abuse and Mental Health Services Administration Community Mental Health Services (SAMHSA CMHS) Block Grant site reviews. However, Mental Health phased out peer reviews in 2004 after a departmental reorganization. Specifically, according to the branch chief of its county programs implementation systems of care division, peer reviews were put on hold as a result of Mental Health's limited personnel and travel resources and its responsibilities to the competing priorities of the Mental Health Services Act. Nevertheless, the lack of peer reviews further diminishes Mental Health's oversight of the programs offered by the counties using SAMHSA CMHS grant funds.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should resume peer reviews as required by federal law.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This issue has not been raised in recent federal reviews conducted by the Center for Mental Health Services which occurred in April 1996, May 1999, and May 2005, nor was it raised in a State audit conducted by the Bureau of State audits in 2003. Mental Health acknowledges that due to various workload priorities formal peer reviews of these programs have not been conducted since 2004. However, it must be noted that due to the ongoing, intensive level of engagement between Mental Health program staff and county grant programs, it is not apparent that there have been any negative consequences resulting from the temporary suspension of peer reviews. Mental Health agrees that these peer reviews should be conducted and will explore how to accomplish this given current workload and resources.